County of Los Angeles
CHIEF EXECUTIVE OFFICE
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WILLIAM T FUJIOKA
Chief Executive Officer

June 17, 2008

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, CA 90012

Dear Supervisors:

DEFINED CONTRIBUTION PROGRAM THIRD PARTY ADMINISTRATOR AND TRUSTEE CONTRACTS
(ALL DISTRICTS) (3 VOTES)

SUBJECT

Recommendation to award a competitively bid contract for third party administrative (TPA) services and trustee services for the County's defined contribution plans.

IT IS RECOMMENDED THAT YOUR BOARD:

1. Approve the selection of Great-West Retirement Services (Great-West) as the third party administrator (TPA) and Wells Fargo Bank, NA (Wells Fargo) as the trustee for the Deferred Compensation and Thrift (Horizons) Plan, Savings Plan, Pension Savings Plan, and Termination Pay Pick-Up Plan for a five-year term commencing July 1, 2008, with an option to renew for up to two additional years.

2. Instruct the Chief Executive Officer to notify Management Applied Programming, Inc. (MAP) and the Bank of New York, that: a) effective July 1, 2008, the County will begin transitioning responsibility for TPA and trustee services for the Pension Savings Plan from MAP and the Bank of New York, respectively, to Great-West and Wells Fargo, respectively, b) that such transition is to be completed as soon as practicable, but no later than November 1, 2008, and c) that the County will terminate its contracts with MAP and the Bank of New York upon completion of the transition process.

3. Instruct the Auditor-Controller and Treasurer and Tax Collector to assist the Chief Executive Office, as needed, to ensure the complete and accurate transfer of the Pension Savings Plan records affected by this action.

4. Instruct the County Counsel to prepare the contracts with Great-West and Wells Fargo necessary to implement the recommendations, and instruct the Chair to sign such contracts.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

TPA services for the Horizons Plan, Savings Plan, and Termination Pay Pick-Up Plan are currently provided by Great-West. The current contract with Great-West expires on June 30, 2008, with provision for month-to-month extensions if additional time is needed to select a successor TPA. The purpose of the recommended action is to obtain your Board's approval for a new five-year agreement with Great-West, commencing July 1, 2008, based on the results of a competitive Request for Proposal (RFP) process. We are further recommending that the new contract provide for optional contract extensions of up to two additional years for a total potential contract term of seven years. If granted, the optional extensions would require additional Board approval at the time they were granted. Lastly, we are recommending that the contract with Great-West be expanded to include the Pension Savings Plan, thereby consolidating the services for the County's defined contribution plans under one TPA.

Need for TPA expertise

Great-West has provided TPA services for the County's defined contribution plans since 1997 when its initial contract was approved by your Board following a competitive RFP process. The initial contract term spanned five years. Two contract extensions of three years each were subsequently authorized by your Board in 2002 and 2005. At the time of the 2005 extension, the Chief Administrative Officer was instructed to conduct another RFP process prior to the next contract term. The RFP process we have just completed fully conforms with that direction.

The Horizons Plan, Savings Plan, and Termination Pay Plan generate the preponderance of need for TPA services. Great-West currently provides TPA services to all three of these plans. In the aggregate, these plans cover approximately 85,000 participants and $5.9 billion in accumulated assets. The break-down by Plan is as follows:

	HORIZONS PLAN	SAVINGS PLAN	TERMINATION PAY
Total Assets	$4.6 billion	$1.3 billion	$ 6.6 million
No. of Participants	73,470	11,400	217
Investment Options	16	15	1
	(includes 5 pre-assembled)	(includes 3 pre-assembled)	

In an average month, Great-West handles more than 180,000 participant inquiries/transactions.

The County utilizes a qualified TPA to provide contracted services because of the professional expertise, specialized systems, and commercial experience necessary to perform the services these plans require. Record keeping is arguably the most fundamental core function a TPA can provide. The TPA record-keeper is responsible for maintaining the accuracy of each participant's investment accounts, which are valued on a daily basis under these programs. The record-keeper also processes all of the daily financial transactions that take place under these plans including investment trading actions by participants, changes in deferral amounts, asset distributions, including hardship withdrawals, and the administration of loans.

Reduced Fees

TPA costs for the Horizons Plan, Savings Plan, and Termination Pay Plan are fully paid by administrative fees charged to the accounts of the participants. Under the proposed Great-West contract, those fees would decrease by approximately 25% or $1.2 million per annum in the aggregate. The current and proposed fee structure is as follows:

	Annual per Participant Fee			**Estimated Annual Cost**		
	Current Contract	Great-West Proposal	% Change	Current Contract	Great-West Proposal	Reduction in Cost
Horizons Plan	$52.32	$39.20	-25%	$4,000,000	$3,000,000	$1,000,000
Savings Plan	$59.76	$43.90	-27%	$724,000	$527,000	$197,000
Termination Pay Pick-Up Plan	$36.00	$34.00	-6%	$7,600	$7,100	$500
			Total:	$4,731,600	$3,534,100	$1,197,500

TPA compensation is currently limited to the fees charged to participants. Great-West is contractually prohibited from receiving any other revenue from any other source in connection with these plans. This requirement would continue under the new fee structure.

Pension Savings Plan

The Pension Savings Plan is a defined contribution plan specifically designed for part-time, seasonal, and temporary employees who are not eligible to participate in the County's defined benefit (LACERA) retirement program. Public entities, like the County, that have withdrawn from Social Security are mandated by federal law to provide this type of benefit to employees not otherwise eligible for other employer sponsored retirement benefits.

The administration of the Pension Savings Plan is currently handled by a combination of contracted services from MAP and in-house services from two employees in the Department of Human Resources (DHR). DHR staff essentially provide "customer service" that includes, among other things, handling participant telephone calls/complaints, recording address changes, recording contribution deferral changes, issuing distribution payments to participants, reconciling bank statements, and effectuating plan to plan transfers to the Horizons plan or other qualified external plans. MAP, on the other hand, maintains an electronic record of each participant's account. MAP interfaces with the County's payroll system to track the monies going into each account and posts the related investment return.

All temporary and part-time employees eligible for the Pension Savings Plan (the Plan) are automatically enrolled in the Plan. At present, there are approximately 27,000 participant accounts and $120 million in assets in the Plan. There is only one investment fund in the Plan. This is a "stable value" type of investment fund where the expectation is modest returns in exchange for little to no risk of loss of capital.

To keep the Pension Savings Plan returns from being too low, the County has historically paid for the full cost of administration. The County pays for the costs of the DHR staff servicing the Plan, and it pays for the costs of MAP's services, including the trustee bank utilized by MAP, the Bank of New York. Total costs for both contract and in-house services are currently estimated at $23 per annum per participant.

The current contract with MAP was originally approved by your Board in 1992. It is an "evergreen" contract with no termination date, but it may be cancelled by the County for convenience with 90 days notice. We are recommending that the necessary notice be provided to MAP and that the new contract with Great-West incorporate the services currently provided by both MAP and DHR. The trustee bank services would likewise be moved to Wells Fargo. Total costs for the administration of the Plan would remain constant at $23 per annum per participant at the outset of the new contract term.

Consolidating all TPA services under one umbrella would streamline the process and improve service levels for Pension Savings Plan participants. For example, Pension Savings Plan participants would have internet access to their accounts in similar fashion to the access enjoyed by Horizons and Savings Plan participants. Moreover, many temporary, part-time, and seasonal employees eventually become permanent full-time County employees eligible for the Horizons Plan. Where this occurs, there is a need to transfer assets to the Horizons Plan, and that process would be greatly facilitated by a single TPA.

DHR would continue to have oversight responsibility with regard to the Pension Savings Plan. The two staff members who would be displaced are full-time employees who work less than full-time on Pension Savings Plan issues. They would be assigned to other work within DHR.

Termination Pay Pick-Up Plan

The Termination Pay Pick-Up Plan is the fourth County sponsored defined contribution plan that requires TPA services. This is a separate 401(a) plan set-up specifically to receive tax deferred contributions from termination pay. This Plan applies to represented employees only. Although a similar program was approved for non-represented employees through amendment to the Savings Plan, the Termination Pay Pick-Up Plan is limited to represented employees.

In 2006, we informed your Board that the Termination Pay Pick-Up Plan, and the parallel Savings Plan provisions, were being suspended on a going forward basis due to oral notification from the IRS, that it was reversing its longstanding position on Internal Revenue Code provisions key to the legal viability of these programs. We further advised that we were waiting for additional guidance from the IRS. Unfortunately, nothing has changed, and we are still waiting for that guidance.

We have approximately 200 employees who transferred money into the Termination Pay Pick-Up Plan before it was put into a state of suspension. Great-West currently provides the TPA services for this Plan, and that would continue to be the case under the proposed contract. As with the Horizons Plan and Savings Plan, all TPA costs for the Termination Pay Pick-Up Plan are charged to the participants. There is no County cost.

Although we are still waiting for IRS guidance on the Termination Pay Pick-Up Plan, in January of this year, your Board approved alternative changes to the Horizons Plan and Savings Plan that also provide for tax deferred contributions from termination pay. Unfortunately, these changes may not apply to the aforementioned 200 employees. For all other eligible employees, the recent changes limit the deferral amounts to the same annual limits that otherwise apply to regular salary deferrals under the Horizons and Savings Plans. In this instance, however, we have the comfort of knowing the program operations conform with published IRS regulations.

Request for Proposal Process

The RFP was released on November 2, 2007 and distributed to TPA's servicing large "jumbo" government and corporate clients where the aggregate assets are in excess of $1 billion. This included Great-West and MAP as one of the two incumbent contractors for the current program. The RFP scope of work covered all of the TPA services associated with the Horizons Plan, Savings Plan, and Termination Pick-Up Plan, as well as the Pension Savings Plan services currently being performed by DHR and MAP.

A six-person joint union/management evaluation committee was established consisting of three union and three management representatives. Mercer was retained to assist the evaluation committee by developing the necessary evaluation instruments, providing current background information on the bidders, and functioning as the RFP contact intermediary to help maintain the evaluation committee's impartiality.

Qualified proposals were received from CitiStreet, Great-West, and Nationwide Retirement Solutions (Nationwide). The related trustee banks were State Street Bank and Trust Company, Wells Fargo, and Nationwide Trust Company FSB, respectively. No response was received from MAP.

The evaluation committee conducted a thorough evaluation of the proposals in accordance with the evaluation criteria set out in the RFP document. The areas evaluated included firm qualifications, participant services, record keeping and administration capabilities, and fees. The evaluation process included formal in-person interviews and an evaluation of feedback from each firm's references.

Great-West received the highest number of total points and was ranked first among the qualified proposals. The evaluation committee unanimously recommended Great-West and its attendant trustee bank, Wells Fargo.

No Appeals or Protests

All three proposers were notified that the Chief Executive Office would be recommending Great-West for the new contract term. MAP was also notified although it submitted no proposal. Each firm was provided the opportunity to exercise its appeal and protest rights through the Countywide Services Contract Solicitation Protest Policy. CitiStreet, Great-West, and Nationwide each requested and received a debriefing on the evaluation of their respective proposals. Following the debriefings, we received no appeals or protests.

Survey of Other Public Entity Practices

In 2005, when your Board approved the last extension of the current Great-West contract, it also instructed the Chief Administrative Officer to review the fees charged for TPA services by other public entities. Toward this end, the Chief Executive Office retained Mercer to conduct a pre-RFP survey of five large government defined contribution plans. The survey focused on fees and services, and the identification of "best practice" benchmark services.

The Mercer survey shows that TPA fees can vary due to the level of required services, plan complexity and participant population in any given plan. However, it is reasonable to conclude that the County's current TPA fees are very competitive based on the survey data. As noted above, those fees would decrease by approximately 25% under the proposed Great-West contract. Therefore, they would be low in relation to the survey data on a going forward basis.

The survey also found that many defined contribution plan best practices are already in place under the current Great-West contract. Examples of best practices include utilization of local field and call center representatives that are specifically dedicated only to the County's Plans, use of a flat per participant fee versus asset based fees, and transparency in financial accounting and reporting through the use of separate accounting ledgers dedicated exclusively to the County's Plans.

A complete copy of the Mercer survey is shown in the Attachment.

Implementation of Strategic Plan Goals

The actions recommended in this letter promote workforce excellence by improving employee morale, by reducing the ongoing administrative cost to participate in the defined contribution plans, and consolidating defined contribution plan servicing under a single full service qualified provider.

FISCAL IMPACT/FINANCING

These recommendations would result in no increase in County cost. As noted above, the TPA costs for the Horizons Plan, Savings Plan, and Termination Pay Plan are paid by administrative fees charged to the accounts of the participants. Those charges would be reduced by approximately $1.2 million per annum. TPA costs for the Pension Savings Plan are currently, and would continue to be, paid by the County, and the scope of those services would be somewhat broader under the new Great-West contract. Overall, however, the costs of administering the Pension Savings Plan would remain constant.

Fees paid to Great-West after the first year of the contract would be subject to cost-of-living adjustments in accordance with Board approved policy. This would essentially limit the adjustments to the lesser of the movement in the Consumer Price Index or general salary adjustments for County employees, if any.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

Federal law requires defined contribution plans to be placed under trust with the primary responsibility of safekeeping plan assets for the exclusive benefit of the participant and his or her beneficiaries. Trustee banks, which are federally regulated, work with the TPA to make sure the investment of plan assets is permissible under the terms of the plan and the law, and that the actions necessary to execute investment transactions are performed. It is standard industry practice to have the TPA identify a trustee bank that is familiar with the TPA's internal systems and financial controls.

Wells Fargo is the trustee bank currently used by Great-West and that relationship would continue under the proposed contract. There is no County cost for trustee services as those costs are included in the TPA fees charged to plan participants. However, we estimate the value of these services at approximately $10,000 per annum.

In the case of the Pension Savings Plan, the trustee used by MAP has been the Bank of New York. Consistent with the transition of Pension Savings Plan TPA services to Great-West, trustee services for this Plan would transition to Wells Fargo.

IMPACT ON CURRENT SERVICES

The proposed contracts with Great-West and Wells Fargo would become effective July 1, 2008. Given that Great-West is the current TPA for the Horizons Plan, Savings Plan, and Termination Pay Pick-Up Plans, this would be a completely seamless transition. Other than a lowering of fees, there would be no noticeable change for the plan participants.

With regard to the Pension Savings Plan, there would be a transition period of up to four months. Great-West and Wells Fargo would not immediately assume responsibility for the Pension Savings Plan. The four month period would be necessary to transition Pension Savings Plan assets and account details from MAP to the Great-West recordkeeping system and trust responsibilities from the Bank of New York to Wells Fargo.

Great-West will not begin charging a TPA fee in connection with the Pension Savings Plan until the transition is complete. In the meantime, DHR, the Bank of New York, and MAP will continue providing the current level of administrative, trust and recordkeeping services to the Plan. The conversion will be completed by November 1, 2008.

Respectfully submitted,

WILLIAM T FUJIOKA
Chief Executive Officer

WTF:SRH:DL
WGL:DT:df
Attachment

c: Auditor-Controller
Treasurer and Tax Collector
County Counsel
Director of Personnel
Horizons Plan Administrative Committee
Savings Plan Administrative Committee
Pension Savings Plan Administrative Committee
Termination Pay Pick-Up Plan Administrative Committee
Coalition of County Unions
SEIU, Local 721
Guild for Professional Pharmacists
Los Angeles County Association of Environmental Health Specialists
Peace Officers Counsel of California Association of Public Defender Investigators
Professional Peace Officers Association
Union of American Physicians and Dentists, AFSCME, AFL-CIO
Great-West Retirement Services
Wells Fargo Bank, NA
Bank of New York
Management Applied Programming Inc.

September 2007

Defined Contribution Plan Survey

County of Los Angeles

MERCER

Human Resource Consulting

MMC Marsh & McLennan Companies

Attachment I

Contents

1

Executive Summary

The Chief Executive Office retained Mercer in July 2007 to assist with developing a request for proposals (RFP) for third party administrative services to the Horizons, Savings, Deferred Earnings, Pension Savings, and Termination Pay Plans (collectively known as the "Defined Contribution Program" or "Plans"). The RFP process allows the County to consider the terms under which other service providers can deliver comparable or improved services and often offers an opportunity to enhance service with the current provider. The CEO requested Mercer to develop an RFP strategy that would enable the County to understand "where we are today", by benchmarking services and fees of comparable government defined contribution plans, and incorporating those findings into a comprehensive RFP.

The responses from the survey reflect the Defined Contribution Program is currently receiving administrative services and fees that are competitive to those provided to comparable government defined contribution plans. The following are key observations of what may be considered current best practices for jumbo plans (>$1 billion in assets):

- Local service center: Centrally located office available for appointment and walk-in service.
- Call center and field representatives: Strictly dedicated to the plan and does not service other TPA clients. Compensation through a salary. Representatives are prohibited from receiving commissions.
- Communication materials: If provided by TPA, materials should be designed for the plan and its participant population demographics. A retirement plan may obtain a higher level of customization by segregating communication services for a separate competitively bid contract.

- Investments. Participant investment menu limited to 20 or fewer investment options to minimize participant anxiety and confusion. Provide optional self-directed brokerage window for sophisticated participants. Separate accounts or commingled funds frequently offer lower investment management fees and may allow the plan to place specific investment restrictions. ie. Parameters for risk exposure and allocation limits, inclusion of variable(s) for social responsibility, etc.

- Fee structure. Flat per-participant fees instead of asset-based fees. Per-participant fees are generally more reflective of the costs of servicing participants – since everyone in the plan receives the same services per-participant fees are considered more equitable. By contrast, asset-based fees are more variable based on the amount of assets resulting in participants with larger accounts balances paying more for the same level of service a participant with a lower account balance receives. Jumbo plan TPA expense as a percentage of total assets averaged 0.08%.

- Investment management expense rebates and other reallowances. Affected participants invested in the fund should receive the investment management expense rebate/reallowance returned by the fund manager.

- Plan-level Revenue. Revenue generated by Plan-level activities used to subsidize/offset participant costs (i.e. securities lending).

- Financial transparency. TPA segregates the plan from other clients through a separate ledger or accounting system and provides monthly reconciled reports.

Comparable Plans

Mercer conducted a review of the County Plans to establish characteristics that would be used to identify comparable government plans. The five County Plans that make up the County Defined Contribution Program are briefly described as follows:

457 (Horizons Plan) – Full-time permanent employees are eligible to participate with a dollar-for-dollar match up to 4% of regular earnings with immediate 100% vesting. The match for represented employees is subject to a negotiated aggregate cap.

401(k) (Savings Plan) – Available to full-time permanent non-represented employees. Employees are eligible for a dollar-for-dollar match up to 4% of compensation with a vesting schedule (20% per year).

401(k) (Deferred Earnings Plan) – The Plan currently has no employees eligible to participate with ongoing contributions. A merger with the Savings Plan is anticipated in the near future.

457 (Pension Savings Plan) – The Plan is a Social Security offset program restricted to employees ineligible to participate in the County's defined benefit program, primarily part-time, seasonal, and temporary employees. Participation is mandatory with a 4.5% employee contribution and a 3% employer contribution.

401(a) (Termination Pay Plan) – The Plan is designed to pick-up unused accrued vacation, sick, and holiday pay upon termination of County service. Through communications with the IRS over multiple years and based on the most recent communications, the County has been notified that these pick-up contributions will not be permissible. The County is in continuing discussions with the IRS regarding the status of this Plan.

Mercer identified five public agencies whose defined contribution plan(s) were comparable with respect to plan type, asset size, participant population, and complexity. The table below identifies the comparable organizations and a few relevant statistics.

	County of Los Angeles	State of California	City of Los Angeles	State of Maryland	State of Missouri	City of New York
Plan types	457, 401(k), PST, suppl. 401(k), 401(a) term pay plan	457, 401(k), PST, 401(a) ARP	457, PST	457, 401(k), 401(a) match, 403(b)	457, 401(a) match	457, 401(k), Roth 401(k), 401(a) match, deemed IRA
Eligible EE's (457 Plan)	92,000	215,000	48,000	82,000	59,000	325,000
Participation	63%	34%	60%	51%	68%	32%
Total Assets (all Plans)	$5.8 B	$6.7 B	$2.8 B	$2.3 B	$1.4 B	$8.2 B
Average Account (457 Plan)	$61,644	$43,333	$70,000	$40,000	$19,643	$68,142
TPA	Great-West	Nationwide	Great-West	Nationwide	CitiStreet	Great-West

PST = Part-time, seasonal, & temporary employee plan
ARP = Alternate Retirement Program designed as a 414(h) pick-up Plan

Mercer contacted each of the agencies, who all agreed to participate in this survey using plan information as of 12/31/06. Completed surveys were received in August 2007. The responses provided information regarding plan size, participation, contributions, services provided by the TPA, participant servicing models, number and type of investments utilized, governance structure, and fees.

Select observations from the comparison plan information is provided below.

TPA Services

The comparison plans indicated that in most situations the services provided by the TPA include group and one-on-one counseling for participants, a local office, a call center, a customized website, and assistance with administrative functions such as domestic relations orders and hardship withdrawal applications. Two of the comparable plans produce part or all of the defined contribution plan communication materials internally, while the others rely on the TPA for development of communication materials.

Dedicated Representatives

Each jurisdiction provided information about the client service representatives committed to their plan(s). The results indicated that while all plans surveyed had a local office, half of them were rented by the TPA and half were provided by the plan sponsor at no cost. Most plans utilize a call center located at the home office, but the City of New York uses a dedicated call center staff in its local office. Finally, the comparison plans reported a broad range of on-site education representatives being used with the lowest being 3 representatives and the highest being 14 representatives to provide in-person education services for participants.

TPA Fees

TPA fees are a function of the services provided by the TPA, and as indicated by the survey responses the services often vary from plan to plan. With that in mind, the table below indicates the total amount each comparable plan indicated it paid for TPA services during 2006. It also includes a calculation of this cost relative to the number of participants in the Plans which includes in-service and terminated/retired employees. This indicates that the County's fee structure was competitive even prior to issuance of the RFP.

	County of Los Angeles	State of California	City of Los Angeles	State of Maryland	State of Missouri	City of New York
Cost for TPA services	$4,748,400	$5,234,162	$2,316,000	$5,200,000	Not provided	$6,750,000
457 + 401(k) participants	83,900	132,000	40,000	67,000	56,000	132,000
TPA cost/ participant count	$56.60	$39.65	$57.90	$77.61	$56.00[1]	$51.14

[1]Missouri did not provide a total 2006 cost for TPA services, but did indicate fees are $56 per participant.

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Details of Study of Comparable Plans (Based on plan information as of 12/31/06)

The following pages reflect the responses from each of the comparable plans in table format with Mercer's observations.

Demographics of Plans

Eligible and Contributing Participants

Eligible Employees	County of Los Angeles	State of California	City of Los Angeles	State of Maryland	State of Missouri	City of New York
457 Plan	92,000	215,000	48,000	82,000	59,000	325,000
401(k) Plan	12,200	215,000		82,000		350,000
401(a) Plan	0	16,000		53,000	56,000	1,300
403(b) Plan				Not available		
Other	8,400 (PST)[1]	95,000 (PST)	4,800 (PST)			350,000 (IRA)

[1]County also has a 401(k) Deferred Earnings Plan with zero eligible employees.

Actively Contributing	County of Los Angeles	State of California	City of Los Angeles	State of Maryland	State of Missouri	City of New York
457 Plan	58,200	44,000	29,000	18,000	40,000[1]	104,000
401(k) Plan	8,400	50,000		26,000		19,000
401(a) Plan	0	13,000		42,000	40,000	0
403(b) Plan				350		
Other	8,400	18,000 (PST)	4,800 (PST)			Not available (IRA)

[1]Missouri demographics reflect 12/31/2004 because active/inactive status not currently available due to plan transition

Shaded areas indicate plan type not offered

Plan Participation and Employer Contributions

Core Participation	County of Los Angeles	State of California	City of Los Angeles	State of Maryland	State of Missouri	City of New York
457 Plan	63%	34%[1]	60%	51%[2]	68%	32%
401(k) Plan	69%					5%

[1]California participants are eligible to contribute to 457 and/or 401(k); using unique SS#, participation is approximately 34%
[2]Maryland participants are eligible to contribute to 457 and/or 401(k); using unique SS#, participation is approximately 51%

Employer Contributions	County of Los Angeles	State of California	City of Los Angeles	State of Maryland	State of Missouri	City of New York
457 Plan	4%; dollar for dollar	N/A	N/A	N/A	N/A	N/A
401(k) Plan	4%; dollar for dollar	N/A		N/A		N/A
401(a) Plan	N/A	N/A		Dollar for dollar up to $300/year	Dollar for dollar up to $600/year	$300 if contribute 1%[1]
403(b) Plan				N/A		
Other	4.5% EE + 3% ER	7.5% from EE	4.5% EE + 3% ER			N/A

[1]Match in City of New York effective 7/1/07 for active members of the Lieutenants' Benevolent Association only.

Observations

- The County has a high participation rate in comparison to the survey respondents. This is true even when compared only to the Plans with a match in place.
- Mercer's experience is that state plans typically have lower participation rates than City/County plans due to the expanded geographies that can make marketing more difficult.

Average Assets per Participant

Total Participants	County of Los Angeles	State of California	City of Los Angeles	State of Maryland	State of Missouri	City of New York
457 Plan	73,000	90,000	40,000	30,000	56,000	113,000
401(k) Plan	10,900	89,000		37,000		19,000
401(a) Plan	230	16,000		Not available	Not available	Start-up in 2007
403(b) Plan				900		
Other	27,200 (PST)[1]	96,000 (PST)	Not available			Not available (IRA)

[1]County also has 600 participants in 401(k) Deferred Earnings Plan

Total Assets	County of Los Angeles	State of California	City of Los Angeles	State of Maryland	State of Missouri	City of New York
457 Plan	$4,500,000,000	$3,900,000,000	$2,800,000,000	$1,200,000,000	$1,100,000,000	$7,700,000,000
401(k) Plan	$1,200,000,000	$2,700,000,000		$ 900,000,000		$ 500,000,000
401(a) Plan	$ 7,000,000	$ 24,000,000		$ 121,000,000	$ 300,000,000	Start-up in 2007
403(b) Plan				$ 75,000,000		
Other	$ 120,000,000[1]	$ 63,000,000	$ 51,000,000			$ 10,000,000

[1]County also has $60 million in 401(k) Deferred Earnings Plan

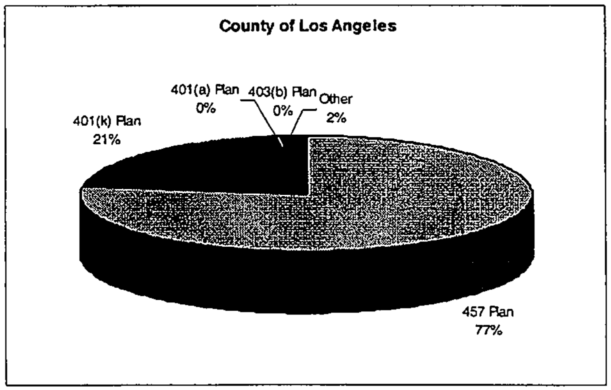
Average Assets per Participant	County of Los Angeles	State of California	City of Los Angeles	State of Maryland	State of Missouri	City of New York
457 Plan	$61,644	$43,333	$70,000	$40,000	$19,643	$68,142
401(k) Plan	$110,092	$30,337		$24,324		$26,316
401(a) Plan	$30,435	$1,500		Not available	Not available	Start-up in 2007
403(b) Plan				$83,333		
Other	$4,412	$656	Not available (PST)			Not available (IRA)

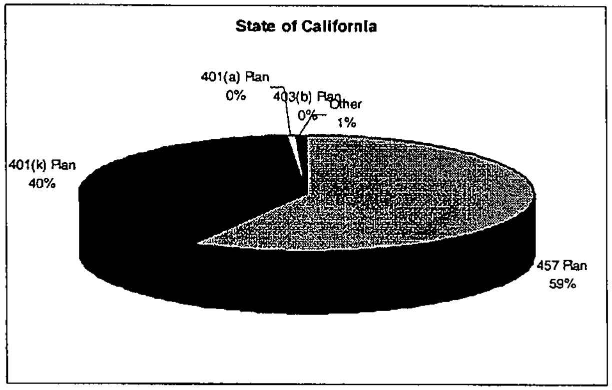
Observations

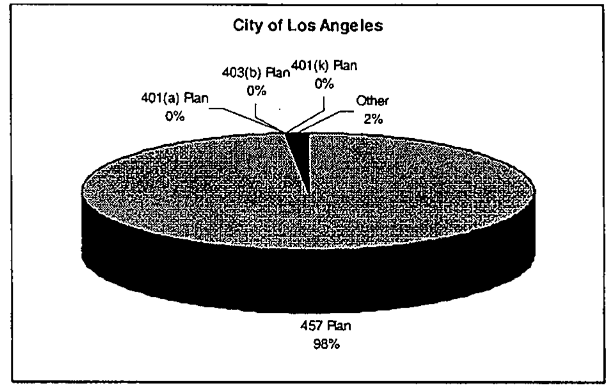
- The County has relatively high average account balances. This is particularly notable since plans with a match in place often experience lower average account balances due to many participants contributing the minimum amount needed to get the match. The average account balance in the 401(k) Savings Plan is quite high at approximately $110,000.

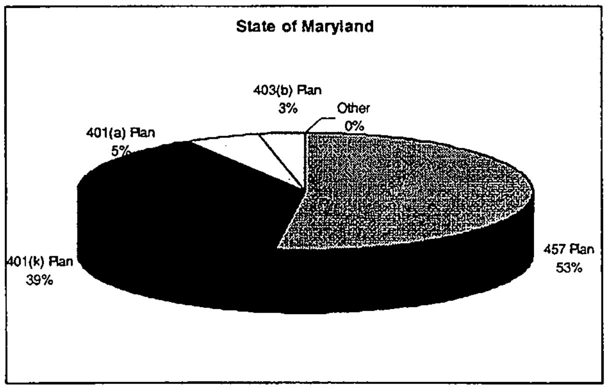
Assets by Plan Type

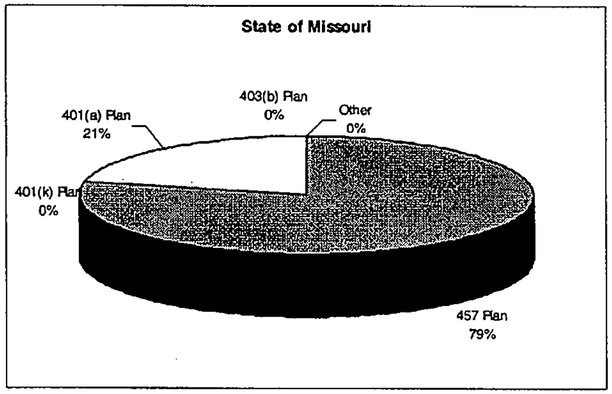
While some 401(k) plans are of significant size, the majority of plan assets are held in the 457 Plans.

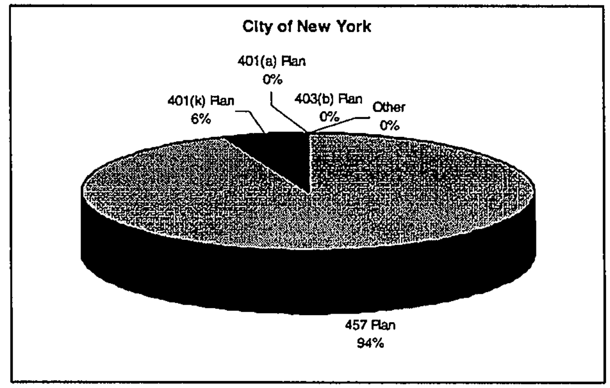












TPA Services

Each survey respondent was asked to identify the parties that provide varied services.

	County of Los Angeles			State of California			City of Los Angeles			State of Maryland			State of Missouri			City of New York		
	TPA	Plan	Other	TPA	Plan	Other	TPA	Plan	Other	TPA	Plan	Other	TPA	Plan	Other	TPA	Plan	Other
Local office	TPA rents			No cost	X		No cost			TPA rents	X		TPA rents			No cost		
Group meetings	X			X			X			X	X		X			X		
One-on-one meetings	X			X			X			X	X		X			X		
Call center	X			X			X			X			X			X		
Communications (written)	X			X	X		X			X			X				X	
Plan document and SPD	X				X			X			X		X				X	
Website	X			X			X			X	X		X			X	X	
Trustee services			X			X			X		Self trust			X				X
Plan audit			X		X			X				X			X			X
QDROs	X	X		X	X			X			X		X				X	
Hardship distributions	X	X		X				X		X			X				X	
Investment advice			N/A			N/A			N/A			N/A			N/A			N/A
Managed accounts			N/A			N/A			N/A			N/A	X					N/A

Observations

- The TPA for the City of New York does not provide written communications. This is a significant cost driver for TPAs.
- While advice and managed accounts have been the subject of much discussion in the DC market, most of the comparison plans do not offer these services (Missouri is the exception).

Participant Servicing

	County of Los Angeles	State of California	City of Los Angeles	State of Maryland	State of Missouri	City of New York
Local office	TPA rents	Provided by plan sponsor at no cost	Provided by plan sponsor at no cost	One TPA rents and one plan sponsor	TPA rents	Provided by plan sponsor at no cost
On-site servicing staff	4.5 TPA reps	3 TPA reps	4 TPA reps	3 Plan sponsor + 11 TPA reps	8 TPA reps	On-site at plan admin office (3)[1]
Call center	Dedicated services at home office	Dedicated services at home office	Shared services at home office	Shared services at home office	Dedicated services at home office	Dedicated services at local office

[1]New York City has TPA staff on-site for participants to visit the local office, but the three staff providing group meetings are not employed by the TPA

Observations

- Dedicated call center representatives are generally more expensive than sharing call center staff with other plans, although they are still common among some large plans such as the County. Dedicated call center representatives may also be more likely to be responsive to participant inquiries because they can focus on a single client's plan design.
- On-site representative counts are typically higher among state plans that need to cover a larger geography.

Investments

Each respondent indicated the following investment options offered. Unless otherwise indicated, the same investment options are offered in all plans.

	County of Los Angeles	State of California	City of Los Angeles	State of Maryland	State of Missouri	City of New York
Mutual Funds	5[1]	5 + 5 risk based funds	14	16 + 11 target maturity funds	30	None
Separate account or commingled fund	5 + 5 risk based portfolios	10	4 + 3 risk based portfolios	One	One	7 + 12 target maturity portfolios
Brokerage window (utilization)	No	Yes	Yes (4%)	No	Yes	Yes (< 1%)

[1]Investments outlined for 457 Plan; 401(k) Plan has 10 mutual funds plus 2 separate accounts and 3 risk portfolios

Governance Structures

	County of Los Angeles	State of California	City of Los Angeles	State of Maryland	State of Missouri	City of New York
Board	457 & 401(a) – Committee with 4 management and 4 union representatives, and a Board appointee 401(k) – Committee composed of management representatives only	Director serves as sole fiduciary	Board established by governance; some positions held by virtue of position (Treasurer, GM Personnel Dept, etc.)	8 person appointed Board of Trustees	Board of Trustees for State Employees Retirement Plan + 2 members from appointed by Governor[1]	7 person appointed Board
Committee(s)	Respective Committee makes all administrative decisions for its Plan	Investment committee	Investment & Plan Governance committees	Investment & Audit committees	Did not indicate	Investment committee
Plan sponsor staff	CAO + 6 full time equivalents	Administrator + 26.5 full-time equivalent	Plan Manager + 3.5 full-time equivalent	Executive Dir + 13 full-time employees	Executive Dir + one coordinator	Executive Dir + 8 full-time employees

[1]Two members appointed by Governor from recently discontinued Deferred Compensation Commission

Observations

- Plan sponsor staff at the County appears to be efficient relative to the survey respondents
- Management of the Missouri Plan recently transitioned from the Deferred Compensation Commission through the Office of Administration to the Missouri State Retirement System (MOSERS)

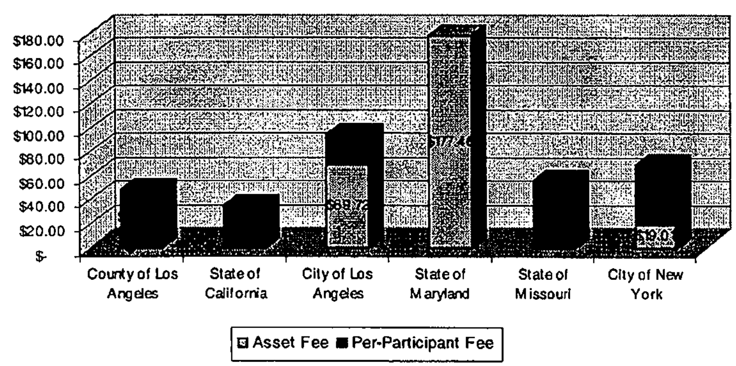
Fees

	County of Los Angeles	State of California	City of Los Angeles	State of Maryland	State of Missouri	City of New York
457 participant fees	$48.88/year	Tiered fees based on assets[1]	0.11% +$24/year	0.28% (0.05% to Board, 0.23% to TPA)	$56/year, reduced by revenue sharing (currently $36/year)	0.03% + $50/year
401(k) participant fees	$55.32/year	Tiered fees based on assets[1]	Not applicable	0.28% (0.05% to Board, 0.23% to TPA)	Not applicable	0.03% + $50/year
Mutual fund revenue sharing	Credited to participant accounts	Used to offset TPA fees and other plan expenses	Credited to participant accounts	Credited to participant accounts	Used to offset TPA fees	No
Administrative funding	No	No	No response	No	$100,000/year	No
Performance guarantees	No	Yes	No response	No	No	No
PST fees	Based on payrolls, statements, etc.	0.50%	$916,000	Not applicable	Not applicable	Not applicable

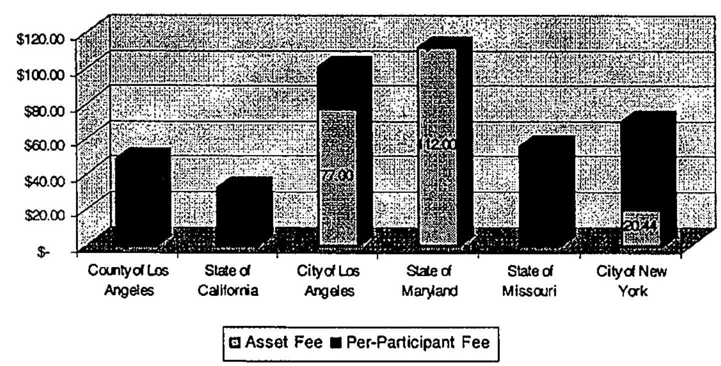
[1]Monthly fees of $2.00 (acct value $2 - $19,999); $2.40 (acct value $20,000 - $34,999); $2.70 (acct value $35,000 - $49,999); $3.00 (acct value $50,000 - $94,999); $4.05 (acct value greater than $100,000

Below are projected fees using the average account balance from the County ($63,380), and average accounts for the other Plans:

One-Year Projected Fees (County Assumptions)



One-Year Projected Fees (Plan Assumptions)



Cost for TPA Services

While the costs above reflect the amounts charged to participants, they do not necessarily indicate the costs for TPA services. Each survey respondent was asked to identify the dollar cost for TPA services provided in 2006. The table below demonstrates TPA fees as a ratio to assets and as a ratio to participant counts (combined 457 and 401(k)).

	County of Los Angeles	State of California	City of Los Angeles	State of Maryland	State of Missouri	City of New York
2006 cost for TPA services	$4,748,400	$5,234,162	$2,316,000	$5,200,000	Not provided	$6,750,000
Total plan assets	$5,874,000,000	$6,687,000,000	$2,851,000,000	$2,296,000,000	$1,400,000,000	$8,210,000,000
TPA cost/asset ratio	0.08%	0.08%	0.08%	0.23%	0.22%[2]	0.08%
457 + 401(k) participants	83,900	132,000[1]	40,000	67,000	56,000	132,000
TPA cost/ participant count	$56.60	$39.65	$57.90	$77.61	$56.00[2]	$51.14

[1]Fees based on unique SS#

[2]Missouri did not provide a total 2006 cost for TPA services; cost/asset ratio uses estimated cost of $3.136 million based on TPA fee and participant count.

The TPA costs above are considered to be the most useful in terms of comparing costs and setting expectations for price proposals in the RFP. Mercer's observation is that the current fees for the County are competitive, and therefore it may be unlikely that significantly reduced fees would be proposed as a result of the RFP.

Fee Drivers

In general, TPA fees are driven by the level of service that is provided for the defined contribution plan. Some of the key drivers of fees are the amount of field staff utilized, the structure of the call center, and the provision of written communications. The addition of non-standard plan types also adds to expense.

	County of Los Angeles	State of California	City of Los Angeles	State of Maryland	State of Missouri	City of New York
TPA field staff	4.5 TPA reps	3 TPA reps	4 TPA reps	3 Plan sponsor + 11 TPA reps	8 TPA reps	3 reps not provided by TPA[1]
Call center structure	15 dedicated at home office	14 dedicated at home office	Shared services at home office	Shared services at home office	Dedicated services at home office	20 dedicated at local office
Written communications	TPA	TPA and Plan sponsor	TPA	TPA	TPA	Plan Sponsor
Non-standard plan types	PST and 401(a) termination pay plan	PST and ARP	PST	403(b) and 401(a) match plan	401(a) match plan	Roth 401(k), 401(a) match plan, and deemed IRA (traditional & Roth)

[1]On-site staff from TPA includes 20 phone service, 10 systems, 17 processing, 15 operations, 8 support (70 total). Three FTE for field education provided by company other than TPA.

Total Annual Plan Costs

Each survey respondent was asked to identify the total annual plan costs (including TPA fees, trustee fees, Board expenditures, in-house staff expense, etc.). Responses are summarized below, as well as a comparison to total assets.

	County of Los Angeles	State of California	City of Los Angeles	State of Maryland	State of Missouri	City of New York
2006 total cost	$7,215,000	$8,800,000	$2,500,000[1]	$6,356,481	Not provided	$10,000,000
Total assets	$5,874,000,000	$6,687,000,000	$2,851,000,000	$2,296,000,000	$1,400,000,000	$8,210,000,000
Cost/asset ratio	0.12%	0.13%	0.09%	0.28%	N/A	0.12%

[1]The City of Los Angeles did not identify total costs as part of the survey response. The total cost was taken from a 2007 NAGDCA survey.

Additional Observations

- Fees charged to the County participants are low compared to the survey respondents.
- With the exception of Maryland and Missouri (which are notably smaller plans in size), TPA fees are approximately 0.08% of assets among the survey respondents.
- With higher average fees, Maryland is the only plan surveyed where the TPA collects fees based on a percentage of assets. All other plans, including the County, contract with the TPA on a per-participant cost basis.
- It is important to note that the fees charged to participants are not necessarily the fees charged by the TPA. In most situations, the survey respondents collect fees in a method or amount that is different from the fees charged by the TPA. In addition, plans may collect revenue through other methods, such as the County's use of separate ledger accounts, and New York City's practice of security lending. California and Missouri also use revenue sharing to offset TPA expenses.
- Returning revenue sharing directly to participants is becoming more common among jumbo plans in the public sector. Mercer's observation is that this is among the most equitable ways to charge fees in a defined contribution plan.
- Among jumbo plans in the public sector, there is a trend toward using per-participant fees instead of asset-based fees. This provides a fee that is generally more reflective of the costs of servicing participants. By contrast, asset-based fees are more variable based on the amount of assets.
- Total annual plan costs for the County appear to be in line with other plans.

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